Statement of Senator Thomas R. Carper, Chairman

Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Committee on Homeland Security and Governmental Affairs

"The Road Ahead: Implementing Postal Reform"

April 19, 2007

As I've noted a number of times in the past, one of the first hearings I attended as a member of this committee six or more years ago was about the Postal Service's dire financial situation. I believe that, at the time of the hearing, the Postal Service was nearing its statutory borrowing limit and appeared to be close to financial collapse.

Things have improved markedly since then. Under Postmaster General Potter's leadership, the Postal Service has survived 9/11 and the anthrax attacks and is currently on solid financial footing. Setting aside a one-time charge related to a provision in the recently enacted Postal Accountability and Enhancement Act, financial data released in early February showed that revenue at the Postal Service was up by more than six percent in the first quarter of Fiscal Year 2007. There was also a further increase in productivity.

These numbers are emblematic of the fine leadership General Potter and his management team has shown over the years. But they also mask some serious long-term problems that threaten the viability of the Postal Service as we know it.

As we're all certainly aware, the Postal Service must compete these days with cell phones, e-mail, fax machines, and electronic bill payment technology. Mail volume in some areas – particularly First Class Mail – has been declining in recent years. In many cases, letter carriers are bringing fewer and fewer pieces of mail to the homes and businesses they visit each day. At the same time, the number of deliver points on the postal network is still increasing by more than one million every year.

Many observers have been saying for years that the Postal Service, due to the cost of its obligation to provide universal service, was entering a so-called "death spiral" of declining volume leading to higher rates leading to more declines in volume and yet higher rates.

The legislation we were able to get enacted at the end of last year was intended to prevent – or at least slow – this decline. We clearly could not outlaw e-mail or electronic bill pay in the legislation, but what we could do and what I believe we did do is provide the Postal Service with more of the tools necessary to compete in a modern economy.

Up until now, the Postal Service has been operating under a business model created for the 1970s. In order to change its prices, postal management was forced to go through a rate-making process that often took more than a year to complete. At the end of the day, the Postal Service was given little incentive through that rate system to modernize its operations because they were essentially entitled to receive whatever price increases they needed to cover their costs, whatever they might be.

That will soon no longer be the case. Under the rate system currently being developed by the Postal Regulatory Commission, the Postal Service will have significantly more freedom to price their products according to what the market will bear and tailor prices to the needs and demands of their customers. They will also be forced to live for at least the next ten years within a tight rate cap based on the Consumer Price Index that will force the continuation of the streamlining process begun under General Potter.

At the same time, the bill signed into law last year strengthens management and transparency at the Postal Service and gives the Postal Regulatory Commission significant new authority to ensure that the Postal Service is complying with applicable laws and regulations. And the authority of the Commission will extend for the first time to service in addition to rates.

The bill also looks to the future, requiring the Postal Service to come up with long-term goals for the right-sizing of its workforce and facilities network and for the deployment of cheaper, more customer-friendly retail options. It also requires regular reports on the Postal Service’s future that will include recommendations on changes to the universal service obligation and the postal monopoly that are needed to ensure that those who depend on the Postal Service are getting the service they need.

Finally, the bill shores up the Postal Service’s finances for years to come. Over the next ten years, the Postal Service will be making aggressive payments towards paying down its more than $50 billion retiree health care liability. At the end of this period, the Postal Service will have full use of billions of dollars every year that they had been paying first into the old Civil Service Retirement System pension program and then, for the past few years, into an escrow account. This money will give the Postal Service the ability to maintain rate stability and continue carrying out its universal service obligation in a future when the use of electronic forms of communication can only be expected to grow.

Starting today, it is the job of this subcommittee to make sure that postal reform is implemented properly. In addition to hearing testimony about the current state of the Postal Service, I want us to closely examine some key provisions of the bill and the plans in place to carry them out.

Chairman Blair, you and your team at the Postal Regulatory Commission certainly have your work cut out for you. You have a number of regulations and reports that must come out in a very short period of time. We structured our bill this way not to test you but to ensure that the Postal Service has the ability to access the significant pricing flexibility we gave them in our bill as soon as possible. We also wanted to give postal customers as soon as possible the benefit of the predictability and stability the rate cap offers them. This is especially important now that the Postal Service is implementing a rate increase and there is fear out there that another increase could be around the corner.

I'd rather have the next rate increase occur under the new rules, not the old rules, so I look forward to hearing from you, Chairman Blair, about where we are in the rulemaking process and what help you might need from us and from the Postal Service in getting the new system up and running sooner rather than later.

I want to close by noting that those of us who had a role in drafting the postal reform bill chose not to privatize the Postal Service and not to erode in any way the level of service that the Postal Service provides. I have been concerned, then, with information my staff and I have learned in the press and from postal employees and customers about the contracting out of mail delivery.

I know that the Postal Service is under tremendous pressure to streamline and cut costs. That pressure will only grow once the rate cap being developed is in effect. I also know that contractors have always been a part of mail delivery. I recognize that there may be some areas where the use of contractors could be expanded. However, I am concerned if what we're seeing now is the beginning of a rapid and wholesale transition from postal employees to contract employees in the area of mail delivery.

If more mail delivery is to be contracted out, the Postal Service needs to be more open about its plans. Customers need to hear about the impact contracting decisions will have on service and employees need to know that they will be treated fairly. I, for one, would like to know some more about the process being used to solicit and review bids and, once a contract has been signed, to oversee the work done by contractors and whoever it is that they may subcontract with.

Letter carriers are often the only contact most Americans have with the federal government every day. In many cases, they're also probably the only part of the federal government that people have positive feelings about. It's important, then, that there be more openness from the Postal Service about what their plans are if contracting out of mail delivery truly is going to become more common.